

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held in the City of  
Albany on June 22, 2023

COMMISSIONERS PRESENT:

Rory M. Christian, Chair  
Diane X. Burman, concurring  
James S. Alesi  
Tracey A. Edwards  
John B. Howard  
David J. Valesky  
John B. Maggiore

CASE 18-M-0084 - In the Matter of a Comprehensive Energy  
Efficiency Initiative.

ORDER APPROVING FUNDING FOR CLEAN HEAT PROGRAM

(Issued and Effective June 23, 2023)

BY THE COMMISSION:

INTRODUCTION

On February 3, 2023, Central Hudson Gas & Electric Corporation (Central Hudson or the Company) filed a petition (the Petition) seeking the Public Service Commission's (Commission) approval to: 1) transfer unspent and previously authorized funds for other programs to the Company's New York State Clean Heat Program (Clean Heat Program); 2) implement an incremental continuity funding mechanism to be used upon depletion of transferred funds; and 3) recover the costs associated with accelerated, transferred, and incremental funds through the System Benefits Charge.

By this Order, the Commission approves, with modifications, the transfer of previously collected and unspent funds identified in the Petition, along with the reallocation of

\$13.5 million from the Company's future non-low-income and moderate-income (non-LMI) electric energy efficiency portfolio budget to its Clean Heat Program budget. The Commission also adopts modifications of the New Efficiency: New York (NE:NY) annual savings target requirement to allow for the non-LMI transfer, and modifies the calculation for Earnings Adjustment Mechanisms (EAMs) associated with these portfolios. The Commission further authorizes a Continuity Funding Mechanism, capped at program spending of \$1 million per month, to be recovered through a Clean Heat surcharge, which will ensure continuity in funding the Clean Heat Program within Central Hudson's service territory in the event that transferred funds are depleted before the Commission takes action on the NE:NY Interim Review. Lastly, this Order identifies \$1.7 million of accrued interest from the Company's Clean Energy Fund (CEF) collections and approves the use of those funds to continue administering the Company's Clean Heat Program and offset or delay the start of the Clean Heat surcharge.

#### THE PETITION

The Petition explains that the Clean Heat Program promotes the electrification of space and water heating by offering contractor and customer incentives for the installation of air-source and ground-source heat pumps. The Company states that its Clean Heat Program has experienced consistently high demand since it was launched in April 2020. As of the end of 2022, the Program had already achieved more than 175 percent of its cumulative 2020-2025 savings target. Central Hudson indicates that its Clean Heat Program has achieved savings at a unit cost lower than the average unit cost derived from the budgets and targets authorized in the Commission's 2020 NE:NY

Order.<sup>1</sup> Despite these lower-than-authorized unit costs, high demand for the program has driven the Company to expend its \$43.2 million cumulative 2020-2025 Clean Heat Program budget significantly ahead of schedule. As the Company indicated in response to Department of Public Service (DPS) Staff's information requests, filed on June 6, 2023, it anticipates fully exhausting its authorized budget for the program by mid-June, 2023.<sup>2</sup>

In an effort to manage program expenditures, the Company reduced its Clean Heat Program incentives in July 2021 and again in March 2022. The Company states that, on both occasions, the reduced incentives led to decreased demand, and that this effect was especially strong after the March 2022 reduction. On June 1, 2023, the Company announced further incentive reductions to take effect on September 1, 2023.<sup>3</sup>

To maximize funding for its Clean Heat Program, the Company notes that it has already brought forward funding for such Program that was authorized for future years. The Company states that the Commission afforded utilities this flexibility in its 2020 NE:NY Order, which authorized reallocating budgets from year to year within a portfolio.

Central Hudson notes that unspent funds from prior years' non-LMI electric energy efficiency budgets are available to reallocate to the Clean Heat Program pursuant to existing Commission rules. The Petition initially identified \$4.6

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<sup>1</sup> Case 18-M-0084, Order Authorizing Utility Energy Efficiency and Building Electrification Portfolios Through 2025 (issued January 16, 2020) (2020 NE:NY Order).

<sup>2</sup> Response to Information Request DPS-1 (filed June 6, 2023).

<sup>3</sup> See <https://cleanheat.ny.gov/assets/pdf/nys-clean-heat-program-incentive-changes-as-of-20230601.pdf>

million of unspent funds, consisting of \$2.76 million from its 2018-2021 non-LMI electric energy efficiency portfolio budgets and \$1.83 million of projected unspent funds from its 2022 non-LMI electric energy efficiency portfolio budget. The Company subsequently revised its estimate of available unspent funds from a total of \$4.6 million to \$3.97 million.<sup>4</sup> The Company indicates that it is able to reallocate these funds to the Clean Heat Program because it achieved its non-LMI electric energy efficiency targets for 2018-2022 without expending its full authorized annual budgets.

After exhausting the available unspent funds from its non-LMI electric energy efficiency portfolio, the Company projects a funding gap of \$27.1 million to continue funding its Clean Heat Program through the end of 2025. This projection is based on forecasted program costs of \$10.6 million per year from 2023-2025. Funding the program at this level would result in a total program expenditure of \$74.7 million.<sup>5</sup>

To make up the projected funding gap, the Company proposes to first reallocate \$13.5 million of its non-LMI electric energy efficiency portfolio budget for 2023-2025 to its Clean Heat Program budget. This \$13.5 million represents approximately 35 percent of the Company's remaining cumulative non-LMI electric energy efficiency portfolio budget. In the Petition, the Company requested that the Commission authorize a

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<sup>4</sup> Response to Information Request DPS-1 (filed June 6, 2023).

<sup>5</sup> The Company incorrectly stated this figure as \$75.1 million in the Petition. Subsequently, in its response to Information Request DPS-1, the Company revised these figures slightly to a projected funding gap of \$27.5 million, unspent funds of \$3.97 million, forecasted program costs of \$10.3 million per year from 2023-2025, and a resultant total program expenditure of \$74.7 million.

proportionate modification of its cumulative savings targets, reducing its remaining non-LMI electric energy efficiency portfolio target by 35 percent and increasing its Clean Heat Program target by the same amount. The Company subsequently projected that it will be able to achieve its cumulative non-LMI electric energy efficiency savings target even after the \$13.5 million reallocation from its non-LMI electric energy efficiency portfolio budget.<sup>6</sup>

The Company explains that reallocating funds from its non-LMI electric energy efficiency portfolio to its Clean Heat Program would not only help to avoid interruptions to the Program, but would also maximize the Company's energy savings and greenhouse gas (GHG) emissions reductions. The Company has recently experienced higher unit costs in its existing non-LMI electric energy efficiency programs for a variety of reasons, including changes in federal lighting standards and the effects of inflation. While the Company maintains that the future of some of these non-LMI electric energy efficiency programs is uncertain, the Clean Heat Program continues to experience high demand and achieve high-impact savings. According to the Company, "the Clean Heat [P]rogram potential appears to be limited mainly by the amount of funding that is available."<sup>7</sup> To close the remainder of its projected Clean Heat Program funding gap, Central Hudson requests that the Commission approve \$13.6 million in incremental continuity funding, to be drawn from if transferred funds are exhausted before the end of 2025.

To recover accelerated NE:NY budget expenditures not included in current rates, as well as the proposed reallocated

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<sup>6</sup> Response to Information Request DPS-1 (filed June 6, 2023).

<sup>7</sup> Petition, p. 10.

non-LMI electric energy efficiency budgets and the requested continuity funding, the Company proposes to recover approximately \$10.7 million per year, for five years, beginning July 1, 2023, through its System Benefits Charge (SBC). The SBC currently recovers the costs associated with the CEF, and is reconciled and updated at the start of each calendar year. The Company proposes that costs associated with the Clean Heat Program be updated every July 1, and would include an annual reconciliation of its actual-to-authorized collections that occurred in each preceding 12-month recovery period. The proposed incremental increase to the SBC would result in total bill increases of approximately 1.0 percent for typical residential customers, 1.0 percent for non-residential non-demand customers, and 1.3 percent for the average non-residential demand customers.

#### NOTICE OF PROPOSED RULE MAKING

Pursuant to the State Administrative Procedure Act (SAPA) §202(1), a Notice of Proposed Rule Making (Notice) was published in the State Register on March 1, 2023 [SAPA No. 18-M-0084SP8]. The time for submission of comments pursuant to the Notice expired on May 1, 2023.

The Commission received three comments in response to the Notice. These comments are summarized and addressed below.

#### COMMENTS

##### Multiple Intervenors

Multiple Intervenors (MI) submitted comments urging the Commission to reject Central Hudson's Petition and contending that utilities should be required to manage their energy efficiency and heat pump programs within their

Commission-authorized budgets. MI also questions why Central Hudson did not reduce its Clean Heat Program incentives more frequently or substantially to avoid exhausting its budget only halfway into the program authorization period.

MI opposes the Company's proposal to reallocate \$13.7 million from its non-LMI energy efficiency portfolio to the Clean Heat Program.<sup>8</sup> According to MI, it is not clear that transferring funding away from Central Hudson's non-LMI energy efficiency programs is in the public interest. MI further states that the proposed transfer raises equity concerns, because it would presumably reduce the amount of funding available for energy efficiency programs that benefit all customers, whereas the Clean Heat Program is focused on residential and small commercial customers.

MI also opposes the Company's proposal to collect an additional \$13.6 million in continuity funding and cites the pressures that rate increases impose on customers, the importance of maintaining the rate certainty afforded by multi-year rate plans, and the numerous initiatives that customers are already required to fund. MI especially opposes the Company's collection of the proposed continuity funding through the SBC, stating that it would be inconsistent with the Company's Current Rate Plan,<sup>9</sup> and that moreover, because the SBC is assessed volumetrically, it has a disproportionate impact on high-volume customers. MI suggests that if the Commission does authorize incremental Clean Heat Program spending by Central Hudson, it

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<sup>8</sup> MI incorrectly identified the proposed amount to be transferred as \$13.7 million, rather than \$13.5 million.

<sup>9</sup> Case 20-E-0428, et al., Central Hudson Gas and Electric Corporation - Rates, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan (issued November 18, 2021) (Current Rate Plan).

should require that any such spending recoverable from customers be deferred, without carrying charges, until the utility's next electric rate proceeding.

Dandelion Energy

Dandelion Energy submitted comments in support of Central Hudson's petition. Dandelion Energy states that it is a Clean Heat contractor with more than 75 customers in Central Hudson's service territory who have signed contracts for the installation of geothermal heat pump systems, with installation currently in process, who are counting on Clean Heat Program rebates. Dandelion Energy advocates for amply funding the Clean Heat Program to support heat pump adoption and provide long-term certainty to market participants, and urges the Commission to authorize the transfers and continuity funding requested by Central Hudson.

New York Geothermal Energy Organization (NY-GEO)

New York Geothermal Energy Organization (NY-GEO) submitted comments supporting Central Hudson's Petition and agreeing with the Company that Clean Heat Program interruptions would hamper market development of the heat pump industry. NY-GEO calls the proposed transfer of funding from the non-LMI electric energy efficiency portfolio a prudent policy decision, given that Central Hudson has surpassed its targets for that portfolio. To promote even greater energy savings and emissions reductions, NY-GEO recommends increasing the share of incentives allocated to ground-source heat pump installation. NY-GEO proposes that the Commission address Central Hudson's request for incremental continuity funding in a generic proceeding applicable to all public utilities, possibly as part of the NE:NY Interim Review, instead of issuing individual approvals on a utility-by-utility basis. Should this generic approval not be



available, NY-GEO supports Central Hudson's requested continuity funding mechanism.

#### LEGAL AUTHORITY

The Commission has the responsibility and the authority under the Public Service Law (PSL) to ensure that utilities carry out their "public service responsibilities with economy, efficiency, and care for the public safety, the preservation of environmental values and the conservation of natural resources."<sup>10</sup> Moreover, pursuant to the New York Energy Law (Energy Law), including §§3-103 and 6-104, the Commission is required to consider actions to effectuate State energy policy and the New York State Energy Plan, which includes increased energy efficiency as a major contributor to New York's energy future.<sup>11</sup> In addition, the Climate Leadership and Community Protection Act (CLCPA) requires the Commission to achieve a goal of 185 trillion British thermal units of end-use energy savings below the 2025 energy-use forecast.<sup>12</sup>

Consistent with the mandates and authority established under the PSL, Energy Law, and the CLCPA, the Commission has directed the development and implementation of a number of programs to increase the deployment of energy efficiency resources in New York, including the Energy Efficiency Portfolio Standard (EEPS), the CEF, Efficiency Transition Implementation Plans (ETIPs), and NE:NY. The activities directed and authorized in this Order will continue and build upon the progress made through those programs.

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<sup>10</sup> PSL §5(2); see also PSL §66(3).

<sup>11</sup> 2015 New York State Energy Plan.

<sup>12</sup> Chapter 106 of the Laws of 2019; PSL §66-p.

### DISCUSSION

The Clean Heat Program is the primary statewide utility-administered program with the goal of achieving the State's objectives of electrifying space and water heating in buildings. The New York State Climate Action Council's Final Scoping Plan, which outlines recommended actions to achieve the GHG emissions limits set by the CLCPA, identifies the electrification of space and water heating using highly efficient heat pumps as an essential strategy for reducing both GHG and criteria air pollutant emissions from the buildings sector.<sup>13</sup> New York State is committed to building electrification using efficient heat pump technologies and the Clean Heat programs support these State objectives by offering customer and contractor incentives for the installation of highly efficient cold-climate air- and ground-source heat pumps in coordination with a portfolio of market development initiatives that can reduce or eliminate on-site GHG and co-pollutant emissions from space and water heating.

In the 2020 NE:NY Order, the Commission emphasized that the budgets and targets established therein were an initial commitment sized primarily to the residential market and based on the data available at the time.<sup>14</sup> The Commission underscored its interest in making rapid progress in heat pump adoption and expressed the expectation that the New York State Energy Research and Development Authority (NYSERDA) and utility program administrators would work together to expand the program beyond the residential market and improve cost-effectiveness as the

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<sup>13</sup> See New York State Climate Action Council Scoping Plan, Ch. 12, Buildings (issued December 19, 2022). Available at: <https://climate.ny.gov/resources/scoping-plan/>

<sup>14</sup> 2020 NE:NY Order, p. 56.

heat pump industry matured.<sup>15</sup> The 2020 NE:NY Order also called for a formal NE:NY Interim Review, to commence in 2022, and signaled that the initial budgets and targets established for New York State Clean Heat would be revisited and potentially increased in the course of that review should further cost-effective potential be identified within or beyond the residential market.<sup>16</sup>

The NE:NY Interim Review was initiated in September, 2022.<sup>17</sup> The intent of the NE:NY Interim Review, as stated in the 2020 NE:NY Order, is to "assess all meaningful aspects of New Efficiency: New York program design and administration, useful innovation, and governance oversight, as well as adjustment of targets and budgets as more becomes practicable."<sup>18</sup> In December 2022, DPS Staff issued its Energy Efficiency and Building Electrification Report, which summarized the performance of all ratepayer-supported energy efficiency and building electrification programs and activities administered by the investor-owned utilities and NYSERDA, including New York State Clean Heat.<sup>19</sup> The Staff Report also posed questions to solicit public input on how these programs should evolve. The Order Initiating Review further indicated that the Commission expects to establish criteria for the energy efficiency and building electrification portfolios moving forward and direct the Program

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<sup>15</sup> Id., p. 57.

<sup>16</sup> Id., p. 57.

<sup>17</sup> Case 18-M-0084, Order Initiating the New Efficiency: New York Interim Review and Clean Energy Fund Review (issued September 15, 2022) (Order Initiating Review).

<sup>18</sup> 2020 NE:NY Order, p. 37.

<sup>19</sup> Case 18-M-0084, Department of Public Service Staff Energy Efficiency and Building Electrification Report (issued December 19, 2022) (Staff Report).

Administrators to submit responsive proposals for Commission consideration. Following the submission of proposals, the Program Administrators will be expected to host a series of technical conferences to provide stakeholders an opportunity to ask questions and gain additional insight to inform the public comment process. Finally, informed by DPS Staff analysis and public feedback, and ensuring alignment with the CLCPA, the Commission will act upon the Program Administrators' proposals.

As stated in Central Hudson's Petition, demand for the Clean Heat Program in the Company's service territory has been consistently high. In the first two years of the program, the Company has already surpassed its cumulative six-year Clean Heat savings target by more than 75 percent and fully electrified more than 4,600 homes.<sup>20</sup> This achievement is in line with the Commission's stated goal of "making rapid progress in heating applications for heat pumps so as to provide the best support for New York State goals to reduce reliance on fossil fuels."<sup>21</sup>

The Company projects that without further action by the Commission, it will exhaust its Clean Heat Program budget, as well as previously collected and unspent non-LMI electric energy efficiency funds in mid-June 2023, at which point it will be required to discontinue offering heat pump incentives. The Commission received one comment from a Clean Heat contractor active in Central Hudson's territory, Dandelion Energy, indicating that discontinuation of the program would cause significant disruption for customers and participating contractors and erode their confidence in the program.

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<sup>20</sup> Petition, p. 5.

<sup>21</sup> 2020 NE:NY Order, p. 57.

Similar to Central Hudson, Consolidated Edison Company of New York, Inc. (Con Edison) filed a petition on February 24, 2022, requesting additional funding for its Clean Heat Program. Con Edison filed updates in May, June, and July 2022, stating that Con Edison had fully expended or committed its budget dramatically ahead of schedule, driving Con Edison to pause accepting new air-source heat pump applications.<sup>22</sup> The program pause also entailed disruptions to ground-source heat pump incentives offered through Con Edison's program.<sup>23</sup> In response to Con Edison's petition, the Commission received an outpouring of public comments from heat pump manufacturers and installers and other heating and cooling industry professionals detailing the disruptive effects of Con Edison's program pause on their businesses and customers.<sup>24</sup> Other commenters supported continued funding of Con Edison's Clean Heat Program as essential to meeting New York's GHG reduction goals. In response to the petition, the Commission determined that authorizing Con Edison's requested funding transfers and providing continuity funding, to be administered prudently and effectively, were critical to minimize the market disruption occasioned by the program pause and continue to advance the State's progress

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<sup>22</sup> Case 18-M-0084, Petition of Consolidated Edison Company of New York, Inc. to Support Clean Heat Market Growth Through Transfer of Unspent and Previously Authorized Funding (filed February 24, 2022). Con Edison filed letters with program updates on May 13, 2022, June 1, 2022, and July 18, 2022.

<sup>23</sup> See Case 18-M-0084, Con Edison Letter (filed July 18, 2022).

<sup>24</sup> See Case 18-M-0084, Order Approving Funding for Clean Heat Program (issued August 11, 2022) (Con Edison Clean Heat Order), pp. 7-12.

towards meeting its building electrification goals and mandates.<sup>25</sup>

#### Funding Transfers and Reallocations

Central Hudson has already taken advantage of the flexibility afforded by the 2020 NE:NY Order to bring forward Clean Heat Program funding authorized for future years. Upon depletion of that funding, Central Hudson proposes to transfer \$3.97 million of previously collected, unspent funds from the Company's 2018-2022 NE:NY budgets. This proposed transfer is permitted under the 2020 NE:NY Order, which grants utilities the flexibility to transfer funds among gas, electric, and heat pump portfolios, provided they demonstrate that they can meet annual targets for the portfolios from which funds are being transferred.<sup>26</sup> Central Hudson achieved its annual non-LMI electric energy efficiency savings target in each foregoing year of the NE:NY period.

In the Petition, Central Hudson proposes an additional reallocation of \$13.5 million of previously authorized, uncollected funds from its projected 2023-2025 non-LMI electric energy efficiency portfolio budget to its Clean Heat Program. In analyzing this request, we find that such a reallocation would likely prevent the Company from meeting its annual NE:NY 2023-2025 non-LMI electric energy efficiency savings targets. However, because the Company exceeded its annual targets for that portfolio in 2019, 2020, 2021, and 2022, the reallocation is unlikely to affect Central Hudson's ability to meet its

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<sup>25</sup> Con Edison Clean Heat Order, p. 18.

<sup>26</sup> 2020 NE:NY Order, pp. 69-70.

cumulative NE:NY 2020-2025 non-LMI electric energy efficiency savings target, as the Company confirmed.<sup>27</sup>

The Commission agrees with the Company that this proposed reallocation aligns with the broader evolution of energy efficiency portfolios currently underway in New York. As the Company states in the Petition, changes to federal lighting efficiency standards are expected to greatly diminish the savings that utilities attain through their retail lighting programs, which have contributed the majority of many utilities' electric energy efficiency portfolio savings to date. DPS Staff's Energy Efficiency and Building Electrification Report recently explored this and other factors driving the need for utility energy efficiency portfolios to evolve.<sup>28</sup> Central Hudson's proposed reallocation of funds is consistent with the Staff Report's finding that to continue to achieve meaningful savings, utility portfolios must shift away from low-cost energy-saving measures like lighting and toward more complex, often more expensive measures, including building electrification.<sup>29</sup> This shift is also necessary to keep pace with New York's ambitious GHG reduction and building electrification goals.

Multiple Intervenors submitted comments objecting to the proposed reallocation of future electric energy efficiency budgets to the Clean Heat Program, arguing that the Company's energy efficiency budgets reflect an important public interest and State policy goal. MI's objection rests in part on the Company's request to decrease its cumulative electric energy

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<sup>27</sup> Response to Information Request DPS-1 (filed June 6, 2023).

<sup>28</sup> See Staff Report, p. 24.

<sup>29</sup> Id., p. 26.

efficiency target in proportion to the funding transfer. However, Central Hudson has since demonstrated that it is likely to achieve its cumulative electric energy efficiency savings target even with the proposed transfer of funds to the Clean Heat Program, which renders the reduction of its cumulative target unnecessary. The Commission believes that MI's concerns on this point should therefore be allayed.

In response to MI's objection that the proposed transfer raises equity concerns because it shifts funds from electric energy efficiency programs accessible to large commercial customers to the predominantly residential Clean Heat Program, the Commission notes its discussion of heat pump budgets and targets in the 2020 NE:NY Order. While the Commission recognized the practical necessity of focusing on residential customers in the early phase of the State's heat pump program, it also recognized significant potential in the non-residential market and signaled its expectation that the program would evolve to support non-residential heat pump applications.<sup>30</sup> In fact, Central Hudson's forecasted heat pump program energy savings incorporate the assumption that the Company will continue to promote efficient electric heat pump projects for large commercial and industrial customers with incentives of up to \$1.0 million per project.<sup>31</sup> The Company also states that it intends to optimize the funds remaining in its non-LMI electric energy efficiency portfolio budget by focusing on its cost-effective programs in that portfolio, including the Commercial Custom and Prescriptive Program, which implements electric energy efficiency measures for large commercial and

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<sup>30</sup> 2020 NE:NY Order, pp. 55-57.

<sup>31</sup> Response to Information Request DPS-1 (filed June 6, 2023).



industrial customers.<sup>32</sup> While the Commission is not obligated to ensure that all customer classes benefit equally from the NE:NY budgets and targets it authorizes, it is nonetheless reassured that no major inequities of the kind that MI envisions would result from the proposed reallocation.

The Commission therefore approves the proposed reallocation and relieves Central Hudson of its obligation to meet annual savings targets for its non-LMI electric energy efficiency portfolio for 2023-2025. The Commission declines to decrease the Company's cumulative 2020-2025 non-LMI electric energy efficiency savings target, as originally requested in the Petition, for the reasons discussed above. The Commission also declines the proportionate modification of the Company's cumulative Clean Heat Program savings target in association with this transfer of funds, although it imposes incremental heat pump savings targets associated with the use of continuity funding, as discussed below.

#### Continuity Funding

The funding transfers authorized in this Order will avert a Clean Heat Program pause in the near term, and may allow the Company to continue operating the program until future budgets are determined in the NE:NY Interim Review. In the event that transferred funds are depleted before the Commission takes action on the Interim Review, Central Hudson requests \$13.58 million of continuity funding. The Commission notes NY-GEO's request that continuity funding for the Clean Heat Program be addressed in a decision applicable to all the utilities, but finds that such an approach would be impractical given differences in the rates of Clean Heat program spending and

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<sup>32</sup> Response to Information Request DPS-1 (filed June 6, 2023).

achievements between utilities and the need to respond to any utility requests for continuity funding within the timeframes applicable under particular circumstances.

The Commission recognizes the detrimental effects of program disruptions on customers, contractors, and other market participants, which NY-GEO and Dandelion Energy note in their comments. The Commission also recognizes the substantial achievements of Central Hudson's Clean Heat Program in reducing on-site fossil fuel consumption and the need to continue building on those achievements to attain the State's GHG reduction goals, while at the same time prudently managing ratepayer funds. Therefore, once transferred and reallocated funds are depleted, the Commission authorizes continuity funding using \$1.7 million of accrued interest from CEF collections, as discussed further below, and thereafter a maximum monthly program expenditure allowance of up to \$1 million to be drawn upon, as needed, up to a total expenditure of \$6.0 million. Once the \$1.0 million allowance is reached in any given month, Central Hudson shall cease accepting applications for that month and place any additional applications on a waitlist for a subsequent month. Conversely, if the funding level is not reached in any given month, Central Hudson shall carry over any unused authorized funding to be drawn upon in future months. For example, if Central Hudson spends \$700,000 in Month 1, the remaining \$300,000 below the \$1.0 million monthly allowance for Month 1 would carry over into Month 2, yielding an expenditure cap for Month 2 of \$1.3 million. This carry-over process allows for seasonal variations in program activity, while keeping within a maximum continuity funding budget of \$7.7 million, including the \$6.0 million Continuity Funding Mechanism. This Continuity Funding Mechanism will remain in place for either six

months or until the authorized \$6.0 million total funding allowance is met, as described above, or until the Commission considers and makes a determination on the Clean Heat Portfolio and other portfolio budgets within the ongoing NE:NY Interim Review, whichever event happens first.

This continuity funding is to begin only if, and after, the Company has fully expended the \$3.9 million in previously collected, unspent energy efficiency funds and \$13.5 million of previously authorized, uncollected funds reallocated from its 2023-2025 non-LMI electric energy efficiency portfolio budget to the Clean Heat Program, as described in this Order. To the extent that the \$13.5 million of previously authorized, uncollected funds being reallocated from the non-LMI electric energy efficiency portfolio budget is not reflected in the Company's revenue requirement and base rates, the Company shall defer such difference as described in the Current Rate Plan. In addition, the Company stated that, as of April 30, 2023, accrued interest from the Company's CEF collections totaled \$1,694,084.<sup>33</sup> If, and when, the continuity funding is needed, the first \$1.7 million of continuity funding spending shall be offset by the \$1.7 million of accrued interest from CEF collections and delay the start of the \$6.0 million Continuity Funding Mechanism discussed above. The use of this balance to fund the Clean Heat Program before initiating any continuity funding collections is consistent with the use of CEF interest envisioned in the 2020 NE:NY Order.<sup>34</sup>

To ensure that all additional funding collected to support Central Hudson's Clean Heat Program is tied to

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<sup>33</sup> Response to Information Request DPS-1 (filed June 6, 2023).

<sup>34</sup> See 2020 NE:NY Order, p. 68.

additional program achievement, the Commission assigns Central Hudson an incremental MMBtu savings target associated with the use of CEF interest and collection of continuity funding, based on a cost per unit of \$93.03 per MMBtu. For example, if the Company expends \$1 million in continuity funding, it must achieve incremental savings of 10,749 MMBtu. This cost per unit savings is based on the Company's projected future Clean Heat program costs, which incorporate anticipated shifts in the types of projects supported by the program, including increases in ground-source heat pump projects, increases in full-load air-source heat pump projects with decommissioning of the existing fossil fuel heating system, decreases in full-load heat pump projects without decommissioning of the fossil fuel system, and decreases in partial-load heat pump projects.<sup>35</sup>

#### Earnings Adjustment Mechanisms

The modifications of the NE:NY program funding authorized in this Order impact the EAMs that the Company is eligible to earn pursuant to its Current Rate Plan.

The Company does not propose an EAM for the incremental energy savings associated with the Clean Heat Program continuity funding. The Commission agrees that shareholder earnings opportunities associated with the use of continuity funding would be inappropriate. The Commission further specifies that any accrued interest on CEF funds used by the Company prior to the use of the Clean Heat continuity funding shall be treated in the same manner as newly authorized continuity funds and shall not be eligible to be counted towards achieving any EAM.

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<sup>35</sup> Response to Information Request DPS-1 (filed June 6, 2023).

Central Hudson proposes, however, that unspent funds remaining from prior years' non-LMI electric energy efficiency budgets should be eligible for current NE:NY flexibility rules, and any energy savings associated with these funds be applicable towards EAM achievement.<sup>36</sup> The Commission agrees.

The Company also proposes that the \$13.5 million reallocation from its non-LMI electric energy efficiency budget to its Clean Heat Program should be eligible for EAM opportunities associated with the Clean Heat portfolio.<sup>37</sup> The Company explains that the \$13.5 million is already authorized within the NE:NY Proceeding and, if not reallocated, would contribute to potential EAM earnings associated with the non-LMI electric energy efficiency portfolio. By reallocating these funds to the Clean Heat Program, the Company states that it will forego a portion of its EAM opportunity in the non-LMI electric energy efficiency portfolio and, therefore, should be permitted to make up that opportunity within the Clean Heat portfolio.

The Commission adopts the Company's proposal and assigns the Company a run-rate target associated with the \$13.5 million of reallocated non-LMI electric energy efficiency funds for EAM purposes using a simple average of the two portfolios' cumulative authorized run rates, which are \$169.30 per MMBtu for its Clean Heat Program and \$53.13 per MMBtu for non-LMI electric energy efficiency portfolio. The average run rate and associated EAM target for these funds is \$111.22 per MMBtu.

The Commission imposes an earnings cap for the funds reallocated from the Company's 2023-2025 electric non-LMI energy efficiency portfolio that is based on the Company's 2022 EAM

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<sup>36</sup> Id.

<sup>37</sup> Id.

performance. Thus far, 2022 is the only year that Central Hudson has had a Share-the-Savings EAM in place. In 2022, Central Hudson claims to have expended approximately \$9.3 million within the non-LMI electric energy efficiency portfolio and anticipates earning an EAM award of approximately \$2.1 million associated with that portfolio. Therefore, it is reasonable to approximate that with similar performance, the EAM opportunity would be roughly \$0.23 for each dollar spent in the non-LMI energy efficiency portfolio.<sup>38</sup>

Central Hudson has significantly overachieved its annual non-LMI energy efficiency targets to date. As of December 31, 2022, the Company had achieved a surplus of 76,483 MWh in verified gross savings (VGS) for years 2019-2022. The proposed reallocation of funding from the non-LMI electric energy efficiency portfolio to the heat pump portfolio will result in a shift in the opportunity to achieve savings from one portfolio to the other. For this reason, Central Hudson proposes that the minimum annual savings threshold for the Company's electric non-LMI energy efficiency Share-the-Savings EAM metric for 2023 and 2024 be based on an objective for the Company to achieve its cumulative 2019-2025 MWh target rather than the pre-existing annual targets established in the Company's Joint Proposal. In other words, one third of the surplus savings (25,494 MWh) will be subtracted from the 2023 NE:NY authorized MWh target for the purposes of setting an EAM threshold. This threshold will be reset for 2024 based on the remaining cumulative surplus, divided by two, and subtracted from the NE:NY authorized 2024 MWh target.<sup>39</sup> Central Hudson does

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<sup>38</sup> Id.

<sup>39</sup> Id.

not currently have an EAM for 2025 as this is beyond the scope of its Current Rate Plan. The minimum threshold for the Company's Heat Pump Share-the-Savings EAM metric would remain unchanged for 2023 and 2024. The Commission adopts this proposal, which is similar to how minimum thresholds were established in Orange and Rockland Utilities, Inc.'s (O&R) Joint Proposal.<sup>40</sup>

The Company proposed that, for the purposes of calculating achievement of the Company's Heat Pump Share-the-Savings EAM metric, total program expenses incurred throughout the year will be divided by total MMBtu achieved, providing an average dollar per MMBtu savings run rate for the year.<sup>41</sup> The dollar amount drawn from each funding source, such as funds currently authorized under existing NE:NY flexibility rules or funds reallocated from future-year non-LMI electric energy efficiency budgets, will be divided by that year's average \$ per MMBtu run rate, resulting in an MMBtu savings achievement associated with each funding source. The annual average run rate will be applied to each funding source. In effect, the same \$ per MMBtu rate will be applied to each funding source equally. The Commission adopts this proposal.

#### Cost Recovery of Continuity Funding

MI opposes the Company's collection of the incremental program costs through the SBC, stating that it would be inconsistent with the Company's Current Rate Plan and that high load factor customers will bear a disproportionate burden

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<sup>40</sup> Case 20-E-0074, et al., O&R - Rates, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans, with Additional Requirements (issued April 14, 2022) (2022 Rate Order)

<sup>41</sup> Response to Information Request DPS-1 (filed June 6, 2023).

associated with recovery of the heat pump program costs on a purely volumetric basis in disregard of cost causation principles.<sup>42</sup> The Commission agrees that heat pump costs should follow cost causation principles.

The continuity funding shall be recovered via a Clean Heat Program surcharge, which will start after six months of actual spending. The Clean Heat Program surcharge shall be used after the \$1.7 million of accrued interest from the collection of Clean Energy Funds is used, as discussed above. Under the Clean Heat Program surcharge, incremental costs associated with continuity funding should be recovered as a separate component of the Miscellaneous Charges factor under the Energy Cost Adjustment Mechanism. The costs should be allocated to each service classification based on the previous 12 months of delivery revenues and be applied to each service classification based on a per kWh or kW rate. This allocation is reasonable given that it allocates the majority of the program costs to the residential and small commercial classes, for which the program has primarily served to date.

With regard to potential customer bill impacts, should the continuity funding be needed in the future, assuming the maximum \$1 million per month of continuity funding were to be spent over a six-month period in the 12 months ending June 30, 2024, the Clean Heat Program surcharge would result in total bill increases of approximately 1.5 percent for typical residential customers, 1.5 percent for non-residential non-demand customers, and 0.9 percent for the average non-residential demand customers, based on a 12-month recovery period. The Company should file tariff revisions associated

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<sup>42</sup> Comments of Multiple Intervenors (filed May 1, 2023), p. 11.



with this surcharge on not less than five days' notice to take effect on September 1, 2023. Since these revisions will be made in compliance with this Order and an opportunity has been provided for public comment, the newspaper publishing requirements of PSL §66(12)(b) and 16 NYCRR §720-8.1 will be waived.

#### Clean Heat Program Improvements

In the first years of the Clean Heat Program, Central Hudson has provided incentives for the installation of: 1) ground-source heat pumps and air-source heat pumps with capacity to satisfy the full heating and cooling loads of a home or building; 2) air-source heat pumps with and without integrated fossil fuel system controls that satisfy a portion of the home or building's heating load; and 3) electric heat pump water heaters. In partial-load air-source projects, the heat pump component of the system is supplemental to the fossil fuel heating source, and therefore does not maximize a project's potential to reduce on-site emissions. To support New York State's achievement of its ambitious GHG emissions reduction goals, the Clean Heat Program must prioritize adoption of full-load heat pumps that serve as the primary heating source for a whole home or building.

Central Hudson indicates that it anticipates increases in installations of ground-source heat pumps and full-load air-source heat pumps with fossil system decommissioning, and decreases in projects supporting only partial heating and cooling load, without decommissioning.<sup>43</sup> The Commission supports this shift and directs Central Hudson to revise its Clean Heat program equipment eligibility rules to prioritize incentives to

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<sup>43</sup> Response to Information Request DPS-1 (filed June 6, 2023).

support the installation of air- and ground-source heat pump systems with capacity to meet the full heating load of the site's conditioned space and ensure the fossil fuel system is fully decommissioned. In the case of air-source heat pump projects that satisfy only part of a home or building's space heating load, Central Hudson's program should support projects in which the integrated control system ensures the heat pump system is the primary source of thermal energy serving the home or building and the fossil fuel heating system provides supplementary or backup heating.

Additionally, Central Hudson should work to increase customer and contractor awareness and program participation related to the installation of heat pump water heaters that satisfy the full load of the site's domestic hot water needs, where the fossil fuel systems are fully decommissioned, to maximize the on-site GHG emissions reduction.

The Commission further notes the importance of building efficiency measures, such as, but not limited to, air sealing, insulation, and advanced Heating, Ventilation, and Air Conditioning controls to help manage the electric system impacts of building electrification, ensure appropriate sizing of heat pump installations, and mitigate the cost to customers of operating heat pump space and water heating systems. In the 2020 NE:NY Order, the Commission called on the utilities to "ensure that customers are advised on the importance of building shell improvements and available opportunities" and encouraged them to "offer packaged incentives addressing both heat pump and envelope upgrades within the budgets authorized for the Statewide Heat Pump Program."<sup>44</sup> The Commission reiterates its

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<sup>44</sup> 2020 NE:NY Order, p. 89.

call, and directs Central Hudson to promote building envelope thermal performance improvements for Clean Heat customers prior to, or coincident with, heat pump system installations.

In implementing these changes to its program, the Commission directs Central Hudson to collaborate with the Clean Heat Joint Management Committee (JMC) to ensure that project eligibility rules and program priorities are updated in concert across the State, there is a consistent experience for program participants, and the reduction of on-site emissions associated with the program is maximized.

#### CONCLUSION

The Commission's actions in this Order will provide for the funding necessary to allow Central Hudson to continue its Clean Heat Program, thereby minimizing market disruption and advancing the State's building electrification goals and mandates.

#### The Commission orders:

1. Central Hudson Gas & Electric Corporation shall reallocate to its Clean Heat Program \$13.5 million of previously authorized, uncollected funds from its projected 2023-2025 non-low-income and moderate-income electric energy efficiency portfolio budget, as discussed in the body of this Order.

2. Central Hudson Gas & Electric Corporation shall transfer to its Clean Heat Program \$3.97 million of previously collected, unspent funds from the 2018-2022 New Efficiency: New York budgets, as discussed in the body of this Order.

3. Central Hudson Gas & Electric Corporation shall utilize \$1.7 million of accrued interest from Clean Energy Fund

collections to offset continuity funding spending, as discussed in the body of this Order.

4. Central Hudson Gas & Electric Corporation shall implement a Continuity Funding Mechanism, capped at \$1.0 million in monthly expenditures, and carry over any unused funds, relative to the monthly allowance, to be utilized in subsequent months, up to a total expenditure of \$6.0 million, as discussed in the body of this Order. Once the funding cap is reached in any given month, Central Hudson Gas & Electric Corporation shall cease accepting applications, and any applications received once the funding cap has been met shall be waitlisted and addressed in a subsequent month, as discussed in the body of this Order.

5. Central Hudson Gas & Electric Corporation is authorized to defer incremental expenditures associated with the Continuity Funding Mechanism and recover the revenue requirement associated with such expenditures over a 12-month period through a Clean Heat Program surcharge - a separate component of the Miscellaneous Charges factor - under the Energy Cost Adjustment Mechanism, as discussed in the body of this Order. Central Hudson Gas & Electric Corporation shall update the surcharge collection amount every six months to reflect additional program expenditures and the updated remaining balances to be collected, as discussed in the body of this Order.

6. Central Hudson Gas & Electric Corporation shall modify the Earnings Adjustment Mechanism calculation methodology and minimum threshold requirement, as discussed in the body of this Order.

7. Central Hudson Gas & Electric Corporation is directed to file tariff amendments as are necessary to effectuate the terms of this Order on not less than five days' notice to take effect on September 1, 2023.

8. The requirements of Public Service Law §66(12)(b) and 16 NYCRR §720-8.1, as to the newspaper publication of the tariff filings directed in Ordering Clause No. 7, shall be waived.

9. Central Hudson Gas & Electric Corporation shall consult with Department of Public Service Staff (Staff) within 10 days of the issuance of this Order to commence plans for implementing the improvements to the Clean Heat Program and to develop a process for increasing customer and contractor awareness, as discussed in the body of this Order. Central Hudson Gas & Electric Corporation shall continue to consult with Staff on a periodic and ongoing basis to ensure proper Clean Heat Program oversight by Staff.

10. Central Hudson Gas & Electric Corporation shall file revisions, following consultation with Department of Public Service Staff, as part of its next annual System Energy Efficiency Plan due by October 1, 2023, reflecting the revised Clean Heat Program budgets and targets, as discussed in the body of this Order and the above Ordering Clauses.

11. In the Secretary's sole discretion, the deadlines set forth in this Order may be extended. Any request for an extension must be in writing, must include a justification for the extension, and must be filed at least three days prior to the affected deadline.

12. This proceeding is continued.

By the Commission,

(SIGNED)

MICHELLE L. PHILLIPS  
Secretary